WILLKIE FARR & GALLAGHER LLP **MEMORANDUM**

TO: Files

CC: San Diego Audit Committee

FROM: Willkie Farr & Gallagher LLP

RE: Interview of Jack McGrory on May 4, 2006

DATED: June 7, 2006

On Thursday, May 4, 2006, Benito Romano and Sharon Blaskey interviewed Mr. Jack McGrory in Willkie Farr & Gallagher's capacity as counsel to the Audit Committee. Mr. McGrory was not represented by counsel. Troy Dahlberg of the Audit Committee and Heath Rosenthal of Willkie were also in attendance. The interview took place in a conference room on the third floor of the San Diego City (the "City") Administration Building and lasted approximately three hours.

The following memorandum reflects my thoughts, impressions and opinions regarding our meeting with Mr. McGrory, and constitutes protected attorney work product. It is not, nor is it intended to be, a substantially verbatim record of the interview.

Warnings

At the outset of the interview, Mr. Romano explained to Mr. McGrory that Willkie Farr & Gallagher LLP ("Willkie") represents the Audit Committee created by the City Council. Mr. Romano stated that although the material discussed during the interview would be treated as privileged, covered either by the attorney-client privilege or the work product doctrine, in the likely event that the Audit Committee issued a report, the privilege would be lost. He said the City could waive the privilege even if no report is written. Mr. Romano further explained that because Willkie is cooperating with other investigations, we may be sharing information we learned with the U.S. Attorney's Office, the SEC and the City's outside auditor, KPMG, and therefore Mr. McGrory should be as accurate and truthful as possible. Mr. Romano also asked that the contents of the interview be kept confidential, and emphasized that Mr. McGrory could seek clarification of any question at any time.

Background

Mr. McGrory stated that he served as the City Manager from 1991 to 1997. Mr. McGrory said that he received his B.A. from Colgate University, his Masters in Public Administration from San Diego State and his J.D. from the University of San Diego. Mr. McGrory said he has never practiced law. He also said that he served as a United States Marine Corp lieutenant for four years. Mr. Mr. McGrory explained that he left his position as City Manager because he became tired of working for Mayor Susan Golding. He had been recruited by law firms as early as 1996, but he was not ready to leave City government at that time. However, he took Saul Price's offer to become the CEO of Price Enterprises in April 1997. Mr. McGrory stated that he has run the San Diego Padres and was president of a Padres subsidiary that built the Padres ballpark (the "Ballpark"). He said he currently runs a private real estate company and a real estate charity in City Heights and has Price Clubs in the Caribbean and Central America.

Budget

Mr. Romano asked Mr. McGrory to explain how the City's budget worked when he was in office. Mr. McGrory noted that he needed to approve service cuts that were made that would directly affect the public. He explained that the planning of the City's budget begins in October, and the budget gets presented to the Council by May 1. Mr. Romano asked if Mr. McGrory's budget planning was shaped by the amount that the City had to contribute to the San Diego City Employees Retirement System ("SDCERS") each year. Mr. McGrory said that it was and stated that the amount would be determined by the actuary and reported to Mr. McGrory by former Deputy City Manager Pat Frazier and former City Auditor Ed Ryan. He said he would usually receive this number between January and May. Mr. Romano asked Mr. McGrory if he included future projections in the budget. Mr. McGrory stated that he tried to implement a two or three-year budget at one point during his tenure as City Manager, but volatility in revenues and lack of discipline made that a difficult goal to accomplish.

Mr. McGrory stated that creating the budget was always a battle with the Council. Mr. Romano asked him what information regarding the budget the Council received. Mr. McGrory stated that the Council was entitled to all information concerning the budget. During his first year as City Manager, Mr. McGrory provided the Council with an approximately 100 page Executive Summary of the budget which was meant to help them understand it and which, according to Mr. McGrory, was a pretty easy document to read. He also said that in the early 1990s, the Council thought that its only job was to spend money and make its constituents happy, and it was his problem to make the budget work, including budgeting for the pension. Mr. McGrory explained that when Council elections changed from city-wide to district elections in 1988, the Council became more political and union-oriented, and it eventually became an agency-shop Council after he left the City.

The Events Leading to Manager's Proposal 1 ("MP-1")

Mr. Romano asked Mr. McGrory to discuss the City's financial state in the early 1990s. Mr. McGrory first stated that there had been a change in the method by which the City's actuarially determined its contribution to SDCERS from Entry Age Normal ("E.A.N.") to Projected Unit Credit ("P.U.C.") in the late 1980s to early 1990s. Mr. McGrory explained that the SDCERS Board and the City's management team, which included Mr. McGrory, decided to make the change to P.U.C. because that method lowered the City's contribution rate. However, they later learned that the P.U.C. method was a lot more volatile than the E.A.N. method. Thus, because the P.U.C. method looked attractive and the City was not warned that it would eventually lead to increased contribution rates, tension arose between Mr. McGrory and the SDCERS actuary, Rick Roeder. Mr. McGrory recalled the City had a desire to return to the more stable E.A.N. method even though it was more costly.

Mr. McGrory explained that in addition to the problems with the P.U.C. method, California's economy came to a halt around 1991 as a result of the recession. Mr. McGrory provided an example of how building permits had to be capped in the late 1980s at 8,000 per year, but the City issued only 200 building permits in 1992. In addition, Mr. McGrory stated that many citizens moved out of the City as a result of the Persian Gulf War (due to the large military population in the City), causing sales tax, property tax and property values to drop drastically. Moreover, he said that the State stopped providing money to the City pursuant to "Proposition 13," a law that was implemented around 1978 and caused the City to rely upon State funding. The State also took from the City redevelopment funds, cigarette taxes, and 80 percent of fines collected by City police officers.

Mr. McGrory also discussed how the City's General Fund, which pays for all basic City services, including the Staff departments, was in terrible condition during the pre-MP-1 years. (He explained that in addition to the General Fund, the City has Enterprise Funds, such as funds for water and sewer, airports and golf courses, which depend on their own fees to operate and are charged overhead. He said the San Diego Union Tribune had accused the General Fund of raiding the Enterprise Funds in the early 1990s.) Mr. McGrory provided the unions with a list of ten items they could pick to receive a 10 percent pay cut, but they would not choose anything. As a result, Mr. McGrory had to take money away from the unions, clearly angering them.

Mr. McGrory said that the costs associated with having the Republican National Convention (the "RNC") in San Diego did not result in MP-1. The RNC did not cost a lot of money, and most of the cost was paid for through private funding. He also stated that in the early 1990s, the Mayor and Council would ask why they had to make contributions to SDCERS because it would be overfunded in the next few years.

Mr. Romano asked Mr. McGrory about specific documents relating to the pre-MP-1 time period. First, Mr. Romano showed Mr. McGrory Exhibit 1, a February 17, 1994 letter from Mr. McGrory to the SDCERS Board, via Larry Grissom, the Retirement Administrator. In that letter, Mr. McGrory asked that the actuarial valuation not be acted on by the Board. Mr. McGrory did not recall this letter, but guessed that the letter had to do with Mr. Roeder's five-year valuation, which he said led to the need for MP-1. Mr. Roeder told Mr. McGrory that there would be an approximately 30-40 percent increase in the City's contribution to SDCERS because of the significant demographic changes in the City at the time. Specifically, people were living longer and therefore drawing more out of retirement, and the average salary for City workers had increased because younger people were not being hired and were being fired more frequently.

Mr. McGrory stated that because of the problems with its economy, the City could not make this increased contribution all at once. Therefore, he worked out a plan with Mr. Roeder whereby the City could ramp up its payments to SDCERS. Mr. McGrory stated that he received his information about the actuarial assumptions from people who dealt directly with Mr. Roeder: Mr. Ryan, Pat Frazier, Richard Gonzales (Deputy City Manager) and Bruce Herring (Deputy City Manager). He explained that Mr. Ryan was Mr. McGrory's link to the SDCERS Board, and he felt he could trust Mr. Ryan because Mr. Ryan did not work for him. This plan seemed plausible to Mr. McGrory because SDCERS made more money in 1995 than it had in any previous year in its history, and SDCERS's surplus earnings, which had been used since the 1970s, would be utilized to help carry out this plan. In fact, SDCERS's assets were so large at that time that Mr. Roeder had set aside "extraordinary surplus earnings" that constituted earnings over and above regular surplus earnings. Mr. Romano asked what constituted extraordinary surplus earnings. Mr. McGrory explained that although it was not written anywhere, extraordinary surplus earnings constituted earnings that were over approximately 12 or 13 percent. Mr. Dahlberg then asked Mr. McGrory if he recalled cases where cities were getting pressure from retirees when they were building up surplus earnings, and Mr. McGrory responded that he did not.

Mr. McGrory stated that he did not think it was wise for Mr. Roeder to look at the demographics of the City employees in the early 1990s as a benchmark to determine projections for the City's future contribution rate because the City was in a bad economic state. Mr. Romano asked Mr. McGrory if he engaged another actuary to receive a second opinion on Mr. Roeder's assumptions. Mr. McGrory responded that he did not, and explained that although people had a few frustrations with Mr. Roeder from time to time, Mr. McGrory did not look to replace him.

Mr. Romano then showed Mr. McGrory Exhibit 2, minutes from an October 14, 1994 meeting between "Jack, Bruce, Ed, Pat and Eric" which states that "Bruce (Cathy) will engage John King (actuary) . . . ." The name "King" sounded familiar to Mr. McGrory, and he said that the minutes showed that it looked as if the City did engage the help of an outside actuary. Mr. Romano then asked Mr. McGrory to explain the "corridor concept" discussed in the minutes and the evolution of that concept. Mr. McGrory said that the corridor concept was created to ensure that SDCERS stayed funded within a certain range. For MP-1, that range was between 82.3 and 92.3 percent funded. In other words, it was a safeguard. Mr. McGrory could not remember who came up with the corridor concept. Mr. Romano asked if he could have created the corridor concept by himself, and he responded that neither he nor his management team could have thought up the concept without outside help.

Mr. Dahlberg asked Mr. McGrory whether MP-1 evolved with the budgetary process or whether it occurred along with Meet and Confer. Mr. McGrory said that MP-1 was a major issue and therefore it became a budget issue. He also stated that when MP-1 was being developed, it was not tied to increasing benefits for City employees. To clarify, Mr. McGrory explained that hostile Meet and Confer sessions with the unions were occurring wholly separate from MP-1's development. At some point, Meet and Confer and MP-1 linked up, but he was unsure when exactly this occurred.

Mr. Romano showed Mr. McGrory Exhibit 3, minutes from a March 24, 1995 SDCERS Board Meeting and noted the discussion in the first couple of pages about transferring funds from the Earnings Stabilizations Reserve ("ESR") to the Employer Reserve to cover an actuarial shortfall. Mr. McGrory stated that he did not recall an attempt before MP-1 to use reserves or surplus earnings to credit the City's contribution. He did think that Mayor Golding asked for a freeze on contributions (a contribution holiday), but this did not happen. However, Mr. McGrory pointed to page eight of MP-1, consolidated from the proposal dated June 7, 1996 as modified by the June 21, 1996 proposal (Exhibit 4), and noted his belief that funds had been set aside knowing that the plan to implement MP-1 was in motion - the extraordinary surplus earnings would be drawn from the ESR and used to help pay for the ramp up.

Mr. Romano also showed Mr. McGrory Exhibit 5, a May 6, 1994 memorandum from Mr. Grissom to SDCERS' Business and Procedures Committee. Mr. McGrory guessed that the memorandum represented the beginning of the discussions that led to MP-1.

MP-1

Mr. McGrory emphasized throughout his interview that the idea for MP-1 floated around for years and constantly changed. He also stated his belief that the process by which MP-1 was created was very public, including discussions at public SDCERS Board and Council meetings and in the newspapers.

Mr. Romano showed Mr. McGrory Exhibit 6, SDCERS Board May 2, 1996 meeting minutes during which Mr. McGrory first presented MP-1 to the Board. Mr. Romano read from page two of the minutes, which stated that "In exchange for benefits improvements contained in the proposed package, [Mr. McGrory] stated that the City needs help with the [ESR]." Mr. McGrory was not sure to what that statement referred, but he believed that the ESR was linked to MP-1. He explained his belief that funds to pay for the ramp up would first be placed in the ESR through extraordinary surplus earnings. Mr. McGrory recalled that some SDCERS Board members were not comfortable with this. He stated that at that point in time, Meet and Confer had been concluded and a package of benefits negotiated, but he did not remember if benefits had to be improved to make a contribution break palatable to the SDCERS Board. He did state that when benefits were tied to MP-1, it was to protect the working man, not to benefit individual members of the SDCERS Board, and that the benefit enhancements were the impetus for the independent Board Members to vote for MP-1. He did note, however, that the Board members did not have enough sophistication to understand their duties.

Mr. Romano then referred Mr. McGrory to the "Concept Overview" attached to the May 2, 1996 SDCERS meeting minutes, Exhibit 7. Mr. McGrory doubted that he had prepared the overview, which he thought was a precursor to MP-1. In response to an inquiry by Mr. Romano about issue number 3, paragraph c of the Concept Overview, Mr. McGrory explained that the purpose of adding into MP-1 a provision stating that there could be no changes in actuarial assumptions or methodology that would effect the employer contribution rates until July 1, 2000 was to prevent Mr. Roeder from telling the City that there were new assumptions after MP-1 was implemented. Mr. Romano noted that ultimately, however, the SDCERS Board's fiduciary council did not allow this provision to be included in the final version of MP-1. Nevertheless, Mr. McGrory did not think that he would have made this proposal without Mr. Roeder and Mr. Grissom agreeing to this version of the agreement.

Mr. Romano then asked Mr. McGrory if he knew why the SDCERS Board stopped using Morrison and Foerster as its fiduciary council. Mr. McGrory recalled that the change occurred not because the Morrison and Forrester attorney refused to sign off on certain opinions, but because the Board was getting unclear, untimely opinions. He also stated that the City had outside legal counsel with respect to MP-1, and he was advised by John Kaheny of the City Attorney's office.

Mr. Romano next showed Mr. McGrory Exhibit 8, the minutes of a June 11, 1996 SDCERS Board Special Workshop. Mr. Romano inquired whether MP-1 was a "tough sell" to the SDCERS Board. Mr. McGrory explained that he thought that the Board members who were part of the City staff clearly comprehended MP-1 because they were involved in its planning, but he was unsure if the outside members understood it. In response to Mr. Romano's reading of Mr. Roeder's comments supporting MP-1 as a result of the sunset provisions on page 15 of the minutes, Mr. McGrory explained that this was Mr. Roeder's way of defending his own proposal. In response, Mr. Romano read Mr. Roeder's comment on page 16 of the minutes that "there is no question that the rate that is being agreed upon is less than what he considers to be the 'ivory tower' actuarial rate," and he asked Mr. McGrory if he thought that Mr. Roeder believed that MP-1 was sound. Mr. McGrory answered by saying that the tradeoff for Mr. Roeder was that SDCERS was getting a funding floor it never had before – and to have the City committed to this floor was a great benefit to SDCERS from an accounting standpoint.

Mr. Dahlberg asked whether there was a discussion as to whether the City was able to forgo its SDCERS payment without breaking the law. Mr. McGrory answered that the City had a legal obligation to pay into SDCERS which could have been written in the City Charter. (However, Mr. McGrory also stated that the State did not pay into its retirement system for four years in a row.) He said that the only discussion they had was to determine at what point SDCERS would be so well funded that it made sense for the City not to pay into it. The problem, however, was the probability that politicians would use the extra money on new programs which become built into the City's operating budget. In the years when the City would have to pay into SDCERS, those programs would have to be cut.

Mr. Romano showed Mr. McGrory Exhibit 9, a June 20, 1996 draft letter from Jeffrey Leavitt (Outside Counsel) to Mr. Herring providing the City with fiduciary advice regarding MP-1. Mr. Romano pointed out page seven of the letter in which Mr. Leavitt noted that the SDCERS Board should be able to approve the new contribution rates because enhanced benefits are included as part of the agreement. Mr. McGrory did not recall this opinion and he was unsure as to why the City retained its own fiduciary counsel. However, he guessed that Mr. Kaheny, who had been copied on that letter, wanted someone to look at MP-1 for the purposes of protecting the City and getting a comfort opinion. He did not believe that the purpose of getting outside counsel was to check up on the SDCERS fiduciary counsel's opinion. When Mr. Romano asked why the City would need an opinion if SDCERS had its own fiduciary lawyer, Mr. McGrory surmised that because the City Charter requires the City Manager to go through the City Attorney to get counsel, getting outside advice was the City Attorney's idea. He also stated that City Attorney John Witt could have suggested this as he was conservative and could have been concerned with a SDCERS Board dominated by political appointees and union people. Mr. McGrory noted his belief that the City staff on the SDCERS Board did not dominate the board. Mr. McGrory also suggested the possibility that the City had to get its own attorney because SDCERS' attorney from Morrison and Forrester was providing unclear and untimely advice. Mr. McGrory said that it would have been important for the City to retain its own attorney and he is not surprised that it did.

Mr. Romano showed Mr. McGrory SDCERS Board Meeting Minutes. Mr. McGrory did not specifically remember the meeting when MP-1 was voted on, the vote or the discussion. He just remembered a series of meetings concerning MP-1. In response to a series of questions from Mr. Romano, Mr. McGrory stated that he also did not recall John Casey (Board Member) departing the meeting prior to the vote, whether this meeting took place in Council Chambers, or if SDCERS' fiduciary counsel was in attendance at the meeting.

Mr. Romano showed Mr. McGrory Exhibit 10, an October 10, 1996 memorandum from Mr. McGrory to the Mayor and City Council attaching a September 19, 1996 opinion of the SDCERS fiduciary council on the legality of MP-1. He also showed Mr. McGrory Exhibit 11, a July 16, 1996 letter from Mr. Casey to the fiduciary counsel via the Retirement Administrator. Mr. McGrory agreed with Mr. Romano's suggestion that Mr. Casey's letter probably resulted in the September 19, 1996 SDCERS fiduciary counsel letter. Mr. McGrory repeated that he did not recall MP-1 being controversial. Mr. Romano asked him if anyone raised the fact that the Charter had to be amended to permit the City to provide less than an actuarially determined contribution amount to SDCERS. Mr. McGrory stated his belief that because Mr. Roeder said that MP-1 was valid, it satisfied the Charter, but he did not remember this being discussed. However, he did state that it was determined that MP-1 did not violate the State Constitution and that the only issue relating to MP-1 that had implicated the Charter was the payment of retiree healthcare benefits ("Retiree Healthcare Benefits") out of surplus earnings. Mr. McGrory explained that the Charter had to be amended to make Retiree Healthcare Benefits a SDCERS benefit (it was formerly a City benefit). Mr. McGrory noted that there most likely were not any other legal issues with regards to MP-1 discussed at the time because Mr. Kaheny, who had been advising him all throughout MP-1's development and was very knowledgeable about San Diego law, did not raise any issues.

Post-MP-1

Mr. McGrory expressed his frustration that MP-1 practically got "thrown into the trashcan" when it was not adjusted to take into consideration the *Corbett* settlement in 2000. Mr. McGrory was very surprised to learn from Mr. Romano that the *Corbett* settlement was paid out of surplus earnings. He stated that this was the first time a basic vested benefit paid out of surplus earnings. Mr. McGrory also stated that the fact that the *Corbett* benefits were treated as contingent was ridiculous because the employees came to depend on them. He could not understand how a court could hold that the *Corbett* benefits were anything but vested. Mr. McGrory stated, "I don't know how you give all the benefits away without changing the numbers." He explained that someone in the City's finance department should have determined how to work the City's new obligations that arose between 2000 and 2002 into MP-1, including the *Corbett* settlement. Mr. McGrory stated his belief that it had been implied in MP-1 that if additional benefits were granted by the City, the numbers in MP-1 would be adjusted.

Mr. Romano asked Mr. McGrory what could have been done to adjust MP-1 to take into consideration new benefits. Mr. McGrory responded that the City's contribution rates could have been increased. He said that nothing in MP-1 allowed for an increase in benefits without anyone paying for them. Mr. McGrory did not think that there would be any benefit increases after MP-1. In response to Mr. Romano pointing out that an earlier version of MP-1 prevented Mr. Roeder from changing the actuarial assumptions until 2000, Mr. McGrory explained that he had only wanted to lock in a rate with Mr. Roeder for stability purposes, but that did not mean that the City had a right to increase benefits without increasing expenditures. It had always been contemplated that if benefits were increased, the City would pay half the costs and the employees would pay the other half. However, Mr. McGrory was told that some of MP-1 did not get adopted, including the plan to phase in employee contribution rates to increase over time.

Mr. Romano showed Mr. McGrory Exhibit 12, a September 12, 2003 e-mail from Mr. Grissom to Mike Leone (Seltzer Caplan Outside Counsel). Mr. McGrory agreed with the sentiment in the e-mail that MP-1 was a good plan that was tarnished by subsequent actions and events that took place in the City.

Mr. Romano asked Mr. McGrory whether anyone asked for his interpretation of MP-1 or advice concerning MP-2 after he left office. Mr. McGrory stated that nobody called him to ask about MP-1 or MP-2 that he could recall, and he was certain that City Manager Michael Uberuaga did not contact him to discuss MP-1 or MP-2. Mr. Romano also asked Mr. McGrory if he stayed in touch with his subordinates when he left City government, and Mr. McGrory said that he did not.

Retiree Healthcare Benefits

Mr. Romano showed Mr. McGrory Exhibit 13, an April 24, 1989 letter from John King of Buck Consultants which said a consultant was hired to assess the best way for the City to pay for Retiree Healthcare Benefits and determined that it was preferable to use an actuarially sound method than a "pay as you go" method. Mr. McGrory explained that the City became committed to providing healthcare when it voted to opt out of the federal social security system and hired the consultant because of concern about what would happen with healthcare costs. He said that it would have been ideal to fund Retiree Healthcare Benefits actuarially, but to move to actuarial funding would have been a "huge jump" at that point.

Mr. Romano then asked why the Retiree Healthcare Benefits began to be paid out of SDCERS' surplus earnings. As background, Mr. McGrory said that there was always a discussion as to whether Retiree Healthcare Benefits were vested. He also explained that premium costs used to be funded by a variety of insurers. There was discussion to determine if these premiums could be combined, with the exception of the police and firefighters who would keep their own plan. The City wanted to cut the insurance plans or force the employees into high deductibles, but such a move was questionable. Also, the City could only move the responsibility of paying the Retiree Healthcare Benefits to SDCERS by amending the Charter. The City could not simply move the responsibility over to SDCERS from the general fund and credit it – the Retiree Healthcare Benefits had to be recognized in the system.

Disclosure

Mr. Romano asked Mr. McGrory how disclosure documents were created when he was City Manager. Mr. McGrory said that Ms. Frazier and Mr. Ryan, along with their staff, were heavily involved in drafting the disclosure documents. Also involved were disclosure counsel Paul Webber from Orrick Herrington, the late Curtis Fitzpatrick from the City Attorney's office and an outside auditor. Mr. McGrory had no role in the creation of disclosure documents. Ms. Frazier and Mr. Ryan would summarize the documents and tell Mr. McGrory what the major issues were. He did see the documents from time to time, but he did not revise them or conduct a page-by-page review because of all of the professionals who worked on putting them together. He noted his surprise that Mr. Ryan and Ms. Frazier did not uncover the problems with the Comprehensive Annual Financial Reports ("CAFRs").

Mr. Romano asked Mr. McGrory what his role was in reviewing disclosure documents. Mr. McGrory said that his role with respect to disclosure was to sign the documents. He also stated that he would introduce disclosure documents to the Council, and point out sensitive issues. When Mr. Romano asked if Mr. McGrory discussed the CAFRs with the Council, he did not recall doing so. Afterwards, Ms. Frazier, Mr. Ryan and Mr. Webber would make a short presentation to the Council and would then answer questions. Some of the Council members would read the Preliminary Official Statements ("POS"), which they received a week prior to the council meeting at which the bond was to be voted on, especially those relating to the sewer bonds because there was sensitivity to the increased rates. Mr. Dahlberg asked if this was the first time the Council members could see the POS. Mr. McGrory stated that the Council members could have discussed these documents before, especially the Wastewater POS. The Council read those documents not to uncover disclosure problems, but rather for political reasons for which they might have to answer to their constituents. Mr. McGrory also stated that the Council was not reading normal risk disclosures in any depth at the time he was City Manager, but emphasized that this was prior to the Sarbanes-Oxley and Enron era.

Wastewater

Mr. McGrory stated that the City engaged in numerous conversations about the sewer upgrades in the 1990s. These rate increases caused the Council to "freak out," and they became a big issue with the Council. Mr. Romano showed Mr. McGrory Exhibit 14, a letter sent to Mr. McGrory from Ronald Blair (a State Water Resources Control Official) on or around September 30, 1994. Mr. McGrory did not recall the letter. He believed that the City was in compliance with the State grant requirements at that time. Mr. Romano then showed Mr. McGrory Exhibit 15, a July 21, 1992 Manager's Report from Mr. McGrory to the Mayor and City Council. Mr. McGrory did not recall why the rate changes were made or how it all finally was resolved, but he noted his belief that the rates were changed over time. Mr. Romano also showed Mr. McGrory a series of e-mails (Exhibit 16) ending on June 2, 1997 between David Schlesinger (Director of the Metropolitan Wastewater Department) and Charles Yackly (Deputy Water Utilities Director) and asked him to explain the loan that was the subject of the e-mail. Mr. McGrory believed that the loan being discussed in the e-mail could have related to "trunkline" - he thought that Kelco was obligated to increase the side of their trunkline, possibly because the sewage they were discharging was clogging up the line. The City installed the trunkline, and Kelco had to reimburse the City over time.

Purchase of Service Credits ("PSC")

Mr. Romano asked Mr. McGrory if he recalled whether Mr. Roeder conducted an analysis to determine how PSCs would be priced. Mr. McGrory recalled that the employee had to pay the full cost of the credit to make SDCERS whole, which included the employer and employee portions. He had no doubt that the PSCs were calculated correctly. Mr. Romano showed Mr. McGrory Exhibit 17, a November 5, 1998 e-mail from Terri Webster to Lorraine Chapin in which a "McGrory case" relating to PSC is discussed. Mr. McGrory did not know to what the e-mail was referring. However, he did state that he purchased five years worth of service credits over a period of two dates. He also suggested that this e-mail could have been referring to early retirement for police officers.

Mr. McGrory's Impressions of Ron Saathoff and City Manager Michael Uberuaga

Mr. Romano asked Mr. McGrory about his impressions of Ronald Saathoff (SDCERS Board Member and Firefighters Union President). In general, Mr. McGrory said that Mr. Saathoff acted like an expert on a lot of issues and "drove" the Meet and Confer sessions. He recalled Mr. Saathoff telling him, prior to his becoming City Manager, in an off-hand comment that he had to go to the SDCERS Board if he wanted to negotiate Mr. Saathoff's union's benefits. Mr. McGrory stated that there was no way he would do that. He also said that he was skeptical about Mr. Saathoff and other employee and management representatives who also sat on the SDCERS Board. Mr. McGrory stated that Mr. Saathoff only supported MP-1 once it became tied to benefits. Mr. Romano asked if Mr. Saathoff had a strong influence over the SDCERS Board. Mr. McGrory was unsure of Mr. Saathoff's influence over the independent Board members. Nevertheless, he thought there were problems with the composition of the SDCERS Board even at the time when he served as City Manager. Like boards of corporations or other city retirement systems, he thought people become members to ensure that they get all of the retirement benefits possible.

Mr. Romano asked Mr. McGrory about his impressions of Michael Uberuaga (City Manager after Mr. McGrory). Mr. McGrory said he recommended three people to succeed him as City Manager, but Mr. Uberuaga was not one of them. He believed that Mr. Uberuaga was chosen because there had been a desire to hire someone less visible and outspoken; in essence, a bureaucrat.

WF&G